

## STATEMENT OF ACTUARIAL OPINION

August 29, 2007

Board of Directors  
Magellan Behavioral Health Services, Inc.

I, Michael J. Cellini, am a member of the American Academy of Actuaries ("the Academy"), and a Senior Manager and Consulting Actuary with the firm of Ernst & Young LLP. I have been retained by Magellan Behavioral Health Services, Inc., the parent company of Tennessee Behavioral Health, Inc., ("the Company" or TBH) to issue this opinion. I meet the Academy qualification standards for issuing this opinion, and I am familiar with the valuation requirements applicable to the Company.

I have reviewed the actuarial assumptions and actuarial methods used in determining the reserves and related actuarial items listed below and as shown in the annual financial statement of the Company, as prepared by the management of the Company for filing with state regulatory officials, as of June 30, 2007. My responsibility is to express an opinion on these reserves and related actuarial items based on my review. The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Actuarial Standards of Practice and Actuarial Compliance Guidelines as promulgated by the Actuarial Standards Board, and form the basis of this statement of opinion.

Financial  
Statement  
Reference

Item

Page-Line

Amount

Claims Unpaid

3-1

\$17,132,701

1. TBH - East

\$12,768,688

2. TBH – Middle/West

4,364,013

Total

\$17,132,701

The reserves and related actuarial items listed above represent the estimates made by management of the Company for all unpaid claims as of June 30, 2007. Considerable

uncertainty and variability are inherent in such estimates, and, accordingly, the subsequent development of the unpaid claims liability may not conform to the assumptions used in the determination of the unpaid claims liability and therefore may vary from the amounts in the foregoing table.

I have relied on listings and summaries of claims and other relevant data, and upon management's representations regarding the collectibility of reinsurance recoverable amounts, as expressed in the attached statement. I have relied upon Mr. William R. Grimm, Vice President Finance, for the accuracy of the data, as expressed in the attached statement.

My review included the identification and evaluation of the effect on the foregoing reserves of capitated risk-sharing contracts with service providers; however, my review of such capitated risk-sharing contracts did not include an assessment of the financial condition of the service providers. As such, the following opinion rests on the assumption that such service providers will fulfill their obligations under their respective contracts with the Company.

In other respects, my examination included such review of the actuarial assumptions and actuarial methods, including comparing prior years' estimates of unpaid claims liabilities to their subsequent development and such other tests of the actuarial calculations, as I considered necessary.

In my opinion, the reserves and related actuarial items identified above:

- (a) Are computed in accordance with presently accepted actuarial standards consistently applied, and are fairly stated in accordance with sound actuarial principles, except that consideration of the adequacy of the Company's reserves and related actuarial items in conjunction with the assets which support them has not been performed;
- (b) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the financial statement was prepared, and provide for all reasonably anticipated unpaid claims under the contracts;
- (c) Meet the requirements of the insurance laws and regulations of the State of Tennessee;
- (d) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year, with any exceptions noted below;
- (e) Include provision for all actuarial reserves and related actuarial items which ought to be established; and,
- (f) Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the Company under the terms of its contracts and agreements, by which I mean that the estimated liabilities is an appropriate measure of reasonably anticipated payments on incurred claims under potentially moderately adverse development, although, consistent with the scope of my

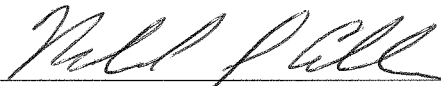
review, the adequacy of the Company's reserves and related actuarial items in conjunction with the assets which support them has not been considered,

My review did not include asset adequacy analysis, as such analysis is not in the scope of my assignment. I have not reviewed any of the Company's assets and I have not formed any opinion as to their validity or value. My opinion rests on the assumption that the Company's June 30, 2007 statutory-basis unpaid claims liability is funded by valid assets that have suitably scheduled maturities and/or adequate liquidity to meet future cash flow requirements.

As part of my review, I conducted analysis consistent with Section 3.6, "Follow-Up Studies", contained in ASOP Number 5, "Incurred Health and Disability Claims", adopted by the Actuarial Standards Board in December 2000.

My review relates only to those reserves and related actuarial items identified herein, and I do not express an opinion on the Company's financial statements taken as a whole.

This opinion has been prepared solely for the Board and the management of the Company and for filing with state regulatory officials and is not intended for any other purpose.



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Michael J. Cellini, ASA, FCA, MAAA  
Associate, Society of Actuaries  
Fellow, Conference of Consulting Actuaries  
Member, American Academy of Actuaries  
Ernst & Young, LLP  
5 Times Square  
New York, New York 10036-6530  
(212) 773-0873



August 30, 2007

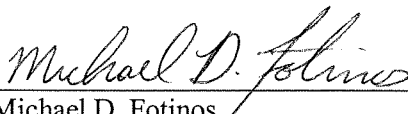
Mr. Michael Cellini, ASA, MAAA  
Ernst & Young LLP  
5 Times Square  
New York, NY 10036

I, Michael Fotinos, Finance Director for Tennessee Behavioral Health, Inc. ("the Company"), hereby affirm that the listings and summaries of claims, exposures and other relevant data as of June 30, 2007, prepared for and submitted to Michael Cellini, all of which are detailed in the attached schedule, were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete, and are the same as or derived from the in force records and other data which form the basis for the Company's 2007 Second Quarter Filing. I further affirm that the line of business classifications, claim incurrual dates, claim payment dates, development intervals, reinsurance data and premium rate information contained in such listings, summaries, and related data are, to the best of my knowledge and belief, accurately stated. I further affirm that the Underwriting and Investment Exhibit of the Quarterly Statement was prepared consistent with the claim incurrual and claim payment dates of the data provided to support determination of the liability for unpaid claims. I further affirm that the listings, summaries, line of business classifications, to the best of my knowledge and belief, are compiled on a basis consistent with comparable data at June 30, 2006.

Policy reserves, the liability for unpaid claims, and unearned premiums are net of reinsurance ceded amounts. All such reinsurance recoverable amounts are collectible at June 30, 2007. I am unaware of any material adverse change in the financial condition of the Company's reinsurers that might raise concern about their ability to honor their reinsurance commitments. The reinsurance contracts provided to you by the Company represent the Company's complete agreements with its ceding and assuming companies, and there are no modifications, either written or oral, of the terms of the Company's reinsurance contracts or additional reinsurance agreements that have not been provided to you.

I further affirm that, to the best of my knowledge and belief, the Company has no obligations or commitments at June 30, 2007 with respect to which actuarial reserves are required or appropriate, except those for which reserves and liabilities are included in the following exhibits and line items on page 3 of the Company's 2007 Second Quarter Filing:

|                   |                  |
|-------------------|------------------|
| Claims unpaid     | \$17,132,701     |
| TBH – East        | \$12,768,688     |
| TBH – Middle/West | <u>4,364,013</u> |
| Total             | \$17,132,701     |

  
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Michael D. Fotinos  
Finance Director

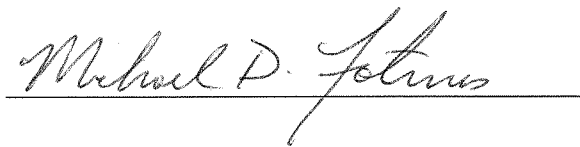
**TENNESSEE BEHAVIORAL HEALTH, INC.**

**STATEMENT OF OPINION ON  
ACCURACY AND COMPLETENESS OF RECORDS**

**June 30, 2007**

I, Michael D. Fotinos, of Magellan Health Services hereby affirm that the records, listings, summaries of policies in force as of June 30, 2007, and other relevant data, prepared for and submitted to Ernst & Young, LLP, were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete. I hereby affirm that the claims incurral dates, claims paid dates, and contract totals are, to the best of my knowledge and belief, accurately stated on the aforementioned records, listing, summaries, and other relevant data.

I further affirm that, to the best of my knowledge and belief, Tennessee Behavioral Health, Inc. has no obligation or commitments with respect to which actuarial reserves are required or appropriate other than those to which data in the aforementioned records, listings, summaries, and other relevant data relate.

A handwritten signature in cursive script, reading "Michael D. Fotinos", is written over a horizontal line.

Michael D. Fotinos  
Finance Director, Public Sector  
Magellan Health Services  
Columbia, Maryland  
August 30, 2007

**TBH East IBNR Analysis  
as of 6/30/07**

| <u>Lag</u>            | <u>G/L Balance</u> | <u>IBNR per lags</u> | <u>Difference</u> |
|-----------------------|--------------------|----------------------|-------------------|
| Outpatient            |                    | 546,500              |                   |
| Inpatient             |                    |                      |                   |
| Private & Residential |                    | 6,972,113            |                   |
|                       |                    | 6,972,113            |                   |
| Supported Housing     |                    | 417,373              |                   |
| IOP                   |                    | 276,862              |                   |
| Partial               |                    | 5,815                |                   |
| Transportation        |                    | 319,221              |                   |
| In-Home               |                    | 427,730              |                   |
|                       | 8,965,616          | 8,965,616            | -                 |

**GL vs Projection Analysis**

|                             | <b>GL</b>         | <b>Projection</b> | <b>Margin</b> |
|-----------------------------|-------------------|-------------------|---------------|
| 640-21400 FFS Claims        | 8,965,616         | 8,965,616         | -             |
| 640-21982 FFS PAD           | 717,249           | 717,249           | -             |
| 640-21000 CMHC Lookback (2) | 2,726,904         | 2,726,904         | -             |
| 640-21005 Claims Cutoff (3) | 358,919           | 358,919           | -             |
| <b>Subtotal</b>             | <b>12,768,688</b> | <b>12,768,688</b> | <b>-</b>      |

**TBH IBNR Analysis**  
as of 6/30/07

| <u>Lag</u>            | <u>G/L Balance</u> | <u>IBNR per lags</u> | <u>Difference</u> |
|-----------------------|--------------------|----------------------|-------------------|
| Outpatient            |                    | 201,766              |                   |
| Inpatient             |                    |                      |                   |
| Private & Residential |                    | 2,695,172            |                   |
|                       |                    | 2,695,172            |                   |
| Supported Housing     |                    | 171,439              |                   |
| IOP                   |                    | 31,926               |                   |
| Partial               |                    | 1,662                |                   |
| Transportation        |                    | 52,092               |                   |
| In-Home               |                    | 35,790               |                   |
|                       | 3,189,847          | 3,189,847            | -                 |

**GL vs Projection Analysis**

|                         | <b>GL</b>        | <b>Projection</b> | <b>Margin</b> |
|-------------------------|------------------|-------------------|---------------|
| 640-21400 FFS Claims    | 3,189,847        | 3,189,847         | -             |
| 640-21982 FFS PAD       | 255,188          | 255,188           | -             |
| 640-21000 CMHC Lookback | 395,720          | 395,720           | -             |
| 640-21005 Claims Cutoff | 82,270           | 82,270            | -             |
| <b>Subtotal</b>         | <b>3,923,024</b> | <b>3,923,024</b>  | <b>-</b>      |
| 640-21805 Reinvestment  | 440,989          | 440,989           | -             |
| <b>Total</b>            | <b>4,364,013</b> | <b>4,364,013</b>  | <b>-</b>      |

Tennessee Behavioral Health - Middle/West  
Reconciliation of Net Premium Income and Uncollected Premiums

A: June 30, 2007

|                                 |     | <u>Jan-07</u>       | <u>Feb-07</u>       | <u>Mar-07</u>       | <u>Apr-07</u>       | <u>May-07</u>       | <u>Jun-07</u>       | <u>Total</u>         |
|---------------------------------|-----|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Gross Revenue Paid              |     | 5,160,589.65        | 4,870,763.38        | 5,243,113.90        | 4,730,105.41        | 4,648,213.79        | 4,753,411.39        | 29,406,197.52        |
| Change in Retro Revenue Accrual | 1,2 | (39,154.11)         | 255,030.20          | (100,784.16)        | (253,889.16)        | 45,765.74           | 118,226.10          | 25,194.61            |
| <b>Total Revenue</b>            |     | <b>5,121,435.54</b> | <b>5,125,793.58</b> | <b>5,142,329.74</b> | <b>4,476,216.25</b> | <b>4,693,979.53</b> | <b>4,871,637.49</b> | <b>29,431,392.13</b> |
| <b>Retro Revenue Accrual</b>    |     |                     |                     |                     |                     |                     |                     |                      |
| Balance, December 31, 2006      |     | 1,564,864.67        |                     |                     |                     |                     |                     |                      |
| 2007 Change in Balance          |     | 25,194.61           |                     |                     |                     |                     |                     |                      |
| <b>Balance, March 31, 2007</b>  |     | <b>1,590,059.29</b> |                     |                     |                     |                     |                     |                      |
| <b>Uncollected Premiums</b>     |     |                     |                     |                     |                     |                     |                     |                      |
| June 2007 2.5% Withhold         |     | 118,835.28          |                     |                     |                     |                     |                     |                      |
| Retro Receivable                | 1,2 | 1,590,059.29        |                     |                     |                     |                     |                     |                      |
| Miscellaneous                   |     | 3,500.00            |                     |                     |                     |                     |                     |                      |
| <b>Total</b>                    |     | <b>1,712,394.57</b> |                     |                     |                     |                     |                     |                      |

1. Due to timing of priority status assessment being submitted to the State and entered into payments system, at the time of initial payment certain members who would qualify for payment at the higher priority rates are paid at the non priority rates. TBH records an accrual related to this misclassification.

2. Accrual for retroactive member additions. Comparison of eligibility to remittance.



Tennessee Behavioral Health - East  
Reconciliation of Net Premium Income and Uncollected Premiums  
A: June 30, 2007

|                                     | <u>Jan-07</u>        | <u>Feb-07</u>        | <u>Mar-07</u>        | <u>Apr-07</u>        | <u>May-07</u>        | <u>Jun-07</u>        | <u>Total</u>         |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Gross Revenue Paid                  | 11,704,066.08        | 10,490,457.88        | 10,516,164.58        | 12,523,673.72        | 11,346,888.67        | 12,247,715.83        | 68,828,966.76        |
| Change in Retro Revenue Accrual 1,2 | (396,848.18)         | 736,141.54           | 668,638.90           | (1,299,452.11)       | 17,408.14            | 370,041.91           | 95,930.20            |
| <b>Total Revenue</b>                | <b>11,307,217.90</b> | <b>11,226,599.42</b> | <b>11,184,803.48</b> | <b>11,224,221.61</b> | <b>11,364,296.81</b> | <b>12,617,757.74</b> | <b>68,924,896.96</b> |
| <b>Retro Revenue Accrual</b>        |                      |                      |                      |                      |                      |                      |                      |
| Balance, December 31, 2006          | 1,559,631.24         |                      |                      |                      |                      |                      |                      |
| 2007 Change in Balance              | 95,930.20            |                      |                      |                      |                      |                      |                      |
| <b>Balance, March 31, 2007</b>      | <b>1,655,561.44</b>  |                      |                      |                      |                      |                      |                      |
| <b>Uncollected Premiums</b>         |                      |                      |                      |                      |                      |                      |                      |
| June 2007 2.5% Withhold             | 306,192.90           |                      |                      |                      |                      |                      |                      |
| Retro Receivable 1,2                | 1,655,561.44         |                      |                      |                      |                      |                      |                      |
| <b>Total Uncollected Premiums</b>   | <b>1,961,754.34</b>  |                      |                      |                      |                      |                      |                      |

1. Due to timing of priority status assessment being submitted to the State and entered into payments system, at the time of initial payment certain members who would qualify for payment at the higher priority rates are paid at the non priority rates. TBH records an accrual related to this misclassification.
2. Accrual for retroactive member additions. Comparison of eligibility to remittance.

**TennCare Partners Program**  
**Reconciliation of IBNR per MLR to Quarterly Filing**  
**June 30, 2007**

|                                | <u>PBS</u>       | <u>TBH</u>       | <u>East</u>       |
|--------------------------------|------------------|------------------|-------------------|
| IBNR Per MLR Report            | 7,168,432        | 3,585,566        | 11,692,520        |
| <b><u>Adjustments</u></b>      |                  |                  |                   |
| Claims Cutoff (1)              | 182,423          | 82,270           | 358,919           |
| FFS PAD (2)                    | 452,366          | 255,188          | 717,249           |
| Reinvestment Reserve           | <u>493,035</u>   | <u>440,989</u>   | <u>-</u>          |
| <i>Total Adjustments</i>       | <i>1,127,824</i> | <i>778,447</i>   | <i>1,076,168</i>  |
| <b>IBNR Per Monthly Filing</b> | <b>8,296,256</b> | <b>4,364,013</b> | <b>12,768,688</b> |

- (1) Claims processed during month but not paid until July Included as a component of paid claims on the MLR reports.
- (2) Ernst & Young requiring a 8% PAD above point estimate for FFS IBNR. Is an allowance for adverse deviation. Not reflected in MLR reports.

**TennCare Partners Program**  
**Reconciliation of Medical Expense per MLR to Quarterly Filing**  
**June 30, 2007**

|   | <u>PBS</u>        | <u>TBH</u>        | <u>East</u>       |
|---|-------------------|-------------------|-------------------|
| Medical Expense Per MLR Report            | 62,549,209        | 20,694,893        | 62,229,891        |
| <b><u>Adjustments</u></b>                 |                   |                   |                   |
| Adjustment to Prior Period IBNR (1)       | 465,276           | (1,034,818)       | (238,085)         |
| FFS PAD (2)                               | <u>431,951</u>    | <u>243,458</u>    | <u>696,646</u>    |
| <i>Total Adjustments</i>                  | <i>897,227</i>    | <i>(791,360)</i>  | <i>458,561</i>    |
| <b>Medical Expense Per Monthly Filing</b> | <b>63,446,436</b> | <b>19,903,533</b> | <b>62,688,452</b> |

(1) Adjustment to IBNR for 12/31/06 and prior dates of service. Ties to underwriting and investment exhibit.

(2) Portion pertaining to 2007 only.

**TennCare Partners Program**  
**Reconciliation of Revenue per MLR to Quarterly Filing**  
**June 30, 2007**

|                                   | <u>PBS</u>        | <u>TBH</u>        | <u>East</u>       |
|-----------------------------------|-------------------|-------------------|-------------------|
| Revenue Per MLR Report            | 82,740,206        | 29,470,128        | 68,461,591        |
| <b><u>Adjustments</u></b>         |                   |                   |                   |
| 2006 retro membership (1)         | <u>249,232</u>    | <u>(38,736)</u>   | <u>463,306</u>    |
| <i>Total Adjustments</i>          | <i>249,232</i>    | <i>(38,736)</i>   | <i>463,306</i>    |
| <b>Revenue Per Monthly Filing</b> | <b>82,989,438</b> | <b>29,431,392</b> | <b>68,924,897</b> |

(1) Change in 2006 revenue between December 2006 MLR report and June 2007 MLR report.